County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

March 4, 2013

To: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

BOARD MOTION OF FEBRUARY 26, 2013, AGENDA ITEM 24-A
REDEVELOPMENT AGENCIES FUNDING

At the February 26, 2013 meeting, the Board requested a report to include the amount of funds the County has received as a result of the dissolution of Redevelopment Agencies (RDAs) and to provide a recommendation priority listing of how this funding should be allocated.

Currently, the County General Fund has received both potentially on-going and identifiable one-time funds from the dissolution of Redevelopment Agencies. It is not known how much of the potentially on-going funds are sustainable, since large amounts were generated from reserves maintained by the RDAs and therefore impossible to project with any reasonable certainty, at this time. In FY 2012-13, we received approximately $75 million in unencumbered Low and Moderate Income Housing Funding (LMIHF) monies from various redevelopment agencies throughout the County. Cities and other taxing entities have also received their proportional share of the unencumbered LMIHF monies. LMIHF monies are one-time in nature and, in keeping with County budget policy, should only be used for one-time expenditures.

We have identified five (5) main areas that the Board has expressed an initial interest in using redevelopment agency funding. The main areas include:

- Affordable Housing
- Economic Development
- Employee Compensation and Benefits
- Clean Water Initiatives
- High-Priority Capital Projects

In addition to the priorities above, County departments need to be considered for critical restorations and to address recent fiscal needs that have arisen. County departments endured curtailments on average of almost 16%, and deletions of almost 2,000 budgeted positions. The County used reserves and other one-time funding solutions, coupled with curtailments, to balance our budget over the last five (5) years. Consideration should also be given to replenishing these budgetary reserves and establishing new reserves for unanticipated liabilities such as judgments and audit settlements. Also, the potential impact of the Affordable Care Act is unknown, at this time, and presents a tremendous uncertainty on the County's future financial outlook.

The following provides a brief discussion of the main program areas, with more detailed background and information provided in attachments:

Affordable Housing

The Board recognizes that there continues to be a need for affordable housing and economic development in the County. The Community Development Commission (CDC) and CEO continue to work on a framework that will focus on increasing the number of units for homeless families, veterans, transitional age youth and other special needs populations. The CDC is recommending operating a sustainable 5-year affordable housing plan with an annual allocation of $34.7 million. The $75 million in unencumbered Low and Moderate Income Housing Funding (LMIHF) is one-time in nature. Refer to Attachment I for additional information.

Economic Development

The CDC and CEO will continue to discuss the Economic Development Framework with your offices in an effort to meet the Board's direction to assist cities with blight mitigation projects, business, and transit oriented development. The CDC estimates an annual allocation of $2 million per Supervisory District for small business development, $15 million for a Countywide Economic Development Notice of Funding Availability (NOFA), and $5 million Countywide for transit oriented development. The $30 million annually for 5 years is beyond the current one-time funding of $75 million in LMIHF funding. The CEO has discussed a lower annual allocation on a one to two year basis until the County's financial situation is more stabilized. Refer to Attachment II for additional information.

Employee Compensation and Benefits

Currently, negotiations are underway for our Safety Units and non-safety bargaining will begin this spring. This year, labor organizations have expectations that include salary and fringe benefit considerations.

Clean Water Initiative

Since 2005, at the direction of the Board, the Department of Public Works (DPW), County Counsel and CEO have been attempting to find and implement a stable and long-term regional funding mechanism that would finance the construction, operation and maintenance of local and regional projects that address water quality and provide other multiple benefits.

On March 12, 2013, the Board will consider the Protest Hearing on the Clean Water, Clean Beaches Initiative to charge all parcels within the region a fee to fund a program to meet the regulatory requirements of the California Regional Water Quality Control Board's (Regional Board) Permit. The Regional Board adopted a new Municipal Stormwater Permit for the Los Angeles Region on November 8, 2013. The new Permit is more sophisticated, stringent and more expensive to meet compliance. If the Initiative is not voted on or it does not pass if voted on, the County will have to provide funding for compliance with the Permit. DPW estimates compliance costs for FY 2013-14 to be nearly $20 million. The following years the estimated annual amounts increase from $57 to $64 million, including administrative costs to meet Permit compliance or an average $30 million per year for the next five years.

Because the County has traditionally used NCC to fund the stormwater program, the CEO will continue to analyze the appropriate annual allocation to provide a sustainable County Stormwater Program. See Attachment III for additional information.

High-Priority Capital Projects

On November 26, 2012, the Board instructed the CEO to prioritize potential major projects requiring bond financing. The CEO will continue to work with your offices to determine the criteria for determining the priority of the projects considering such factors as building safety, age, and regulatory requirements.

There are many aspects to consider as the projects reflect the aging infrastructure of some of the County's most important assets and service centers. The County is in a good financial position as it applies to debt and is well within an acceptable level of its debt ratio as determined by the rating agencies and financial experts. The projects being considered total approximately $3.8 billion with an annual debt service of over $253 million.

Over the course of the last five fiscal years, the County has been severely challenged by the economic downturn and has been a model in the financial community for its ability to continue to provide essential core County services, even during these difficult times. In addition, the County has been able to achieve this without furloughs, layoffs, and dislocation of employees.

We believe that all funding decisions should be the result of a deliberative comprehensive budget process that considers all competing demands for limited resources. We are committed to including all these factors as we complete the FY 2013-14 budget process.

If you have any questions or need additional information, please let me know, or your staff may contact Sid Kikkawa at (213) 974-6872.

WTF:SK:JW
MM:alc

Attachments

c: Executive Office, Board of Supervisors
County Counsel

Affordable Housing

Since November 2012, updated on January 17, 2013, the Board of Supervisors (Board) has directed the Chief Executive Office (CEO) to work with the Community Development Commission (CDC), and other appropriate County Departments to review and report back to the Board on an Affordable Housing and Economic Development Framework that includes the following goals:

1. Development of Affordable Housing
2. Funding for Infrastructure Development to Support Inter-Agency Collaboration and Efficiency
3. Grants to Cities to Support Economic Development and Blight Mitigation Projects
4. Support for Small Business Development
5. Support for Regional Economic Development
6. Seed Funding for Transit Oriented Development
7. Angel Funding to Support Local Biotech Enterprises
8. Funding for General County Operations

The CDC and CEO have met on several occasions with CDC Deputies and Cross-Cluster Deputies on a proposed Affordable Housing and Economic Development Framework that will utilize best practices and leverage additional resources. As late as Thursday, February 28, 2013, the CDC and CEO met in the monthly Cross-Cluster meeting for an update on CDC efforts to address the goals above.

The Board recognizes that there continues to be a need for affordable housing and economic development in the County. The report back being prepared will address each of the goals above specifically, keeping in mind that the annual need for affordable housing financing is much greater than available resources. In addition, due to continuous decreases in operating subsidies or rental assistance sources, meeting the needs of our most in need population is even more challenging. The CDC is recommending operating a sustainable 5-year affordable housing plan with the objective of increasing the number of units for homeless families, veterans, transitional age youth and other special needs populations.

The CDC has recommended an allocation of $34.7 million annually for 5 years will allow the Commission to issue a Countywide Notice of Funding Availability (NOFA) annually, for the next five years, and offer the affordable housing industry some level of stability and predictability.

While stability and predictability are important in establishing affordable housing projects, current County funding resources do not support an annual allocation of nearly $35 million. In the Cross-Cluster meeting on February 28, 2013, a lower annual amount, over a possible two-year period, was discussed. While the County finances are attempting to stabilize, Redevelopment Agencies dissolution funds continue to be analyzed for long term receipts. The $75 million in unencumbered Low and Moderate Income Housing Funding (LMIHF) is one-time in nature, with several equally challenging County needs in the queue for funding attention.

Economic Development

In the Affordable Housing and Economic Development Framework developed by the Community Development Commission, several aspects of economic development and transit oriented development were explored. As part of its 5-year sustainable funding strategy, CDC recommends an annual NOFA to assist cities with blight mitigation projects, especially those worthwhile, but stalled with funding gaps resulting from the loss of redevelopment funding. The NOFA criteria would include factors such as location near transit stations, jobs created, wage levels, growth industries, export potential, and revenue generated for the County. Additionally, the preservation of industrially-zoned land, leveraging of funds, project readiness, development team experience, and local hiring plan would be included in the NOFA criteria. The CDC estimates an economic development NOFA would require approximately $15 million for one or more pilot projects.

In addition, the CDC explored small business development targeting programs specifically by Supervisorial District and transit oriented development on a Countywide basis. The CDC estimates an annual allocation of $2 million per Supervisory District for small business development, and $5 million Countywide for transit oriented development projects.

The CDC recommends $30 million annually, for 5 years, for a County Economic program. Current one-time funding of $75 million will not sustain an allocation of this amount. At the Cross-Cluster meeting on February 28, a lesser allocation annually, for one to two years, was discussed as a possible alternative, keeping in mind the limited funding and pending County needs.

ATTACHMENT III

Clean Water Initiative

At the Board's direction for nearly one year, the Department of Public Works (DPW) has been working toward placing a Proposition 218 measure before the voters for consideration of funding the region's water quality regulations. In 2005 DPW, CEO and County Counsel have been attempting to find and implement a stable and long-term regional funding mechanism that would finance the construction, operation and maintenance of local and regional projects that address water quality and provide other multiple benefits.

On March 12, 2013, the Board will consider the status of the Protest Hearing on the initiative to charge all parcels within the region a fee to fund a program to meet the regulatory requirements to meet the California Regional Water Quality Control Board's (Regional Board) permit. The proposed assessed fee, if approved, is estimated to provide $14 million to the County to meet its Clean Water regulations. The Regional Board adopted a new Municipal Stormwater Permit for the Los Angeles region on November 8, 2012. The Permit became effective on December 28, 2012. The current Permit covers an area of approximately 3000 square miles and is issued to 84 municipalities within the County, the unincorporated County of Los Angeles, and the Los Angeles County Flood Control District. The current Permit is more sophisticated, stringent and more expensive to meet compliance, since the inception of Total Maximum Daily Loads (TMDLs) in the early 2000s. The current Permit requires compliance with 33 TMDLs as compared with two in 2001.

DPW estimates its compliance costs for FY 2013-14 to be nearly $20 million. Year's to follow estimate annual amounts totaling $57 to $64 million, including capital and administrative costs to meet the Permit compliance or an average $30 million per year for the next five years.

The County has used General Fund revenues to fund limited stormwater and urban runoff cleanup efforts for the County's unincorporated area. The average annual allocation from Net County Cost (NCC) has been $11 million for compliance with the previous Permit.

As the Board considers next steps in regard to the Clean Waters, Clean Beaches initiative, the County's obligation to comply with the Regional Board's Permit is on-going. Regardless of the funding source, the County must provide a plan to the Regional Board by September 2013 indicating its plan for how it will comply. Whether the costs are $19 million or more per year, an adequate allocation must be provided for compliance.

Different from Affordable Housing or Economic Development, the County's compliance with the Clean Water permit is an on-going requirement, subject to fines, penalties and litigation for non-compliance that could far exceed an annual allocation. The funds returning to the County from the Redevelopment Agencies dissolution are General Fund or NCC. Because the County has traditionally utilized NCC to fund the Stormwater Program, the CEO will continue to analyze the appropriate annual allocation. The $75 million in one-time funding is not adequate to fund this long-term regulatory requirement. If the initiative is not voted upon or does not pass, NCC will have to be used for a sustainable County Stormwater Program.